

DEPARTMENT OF ADMINISTRATION

An Agency Profile Prepared by the
Legislative Fiscal Division

November, 2016

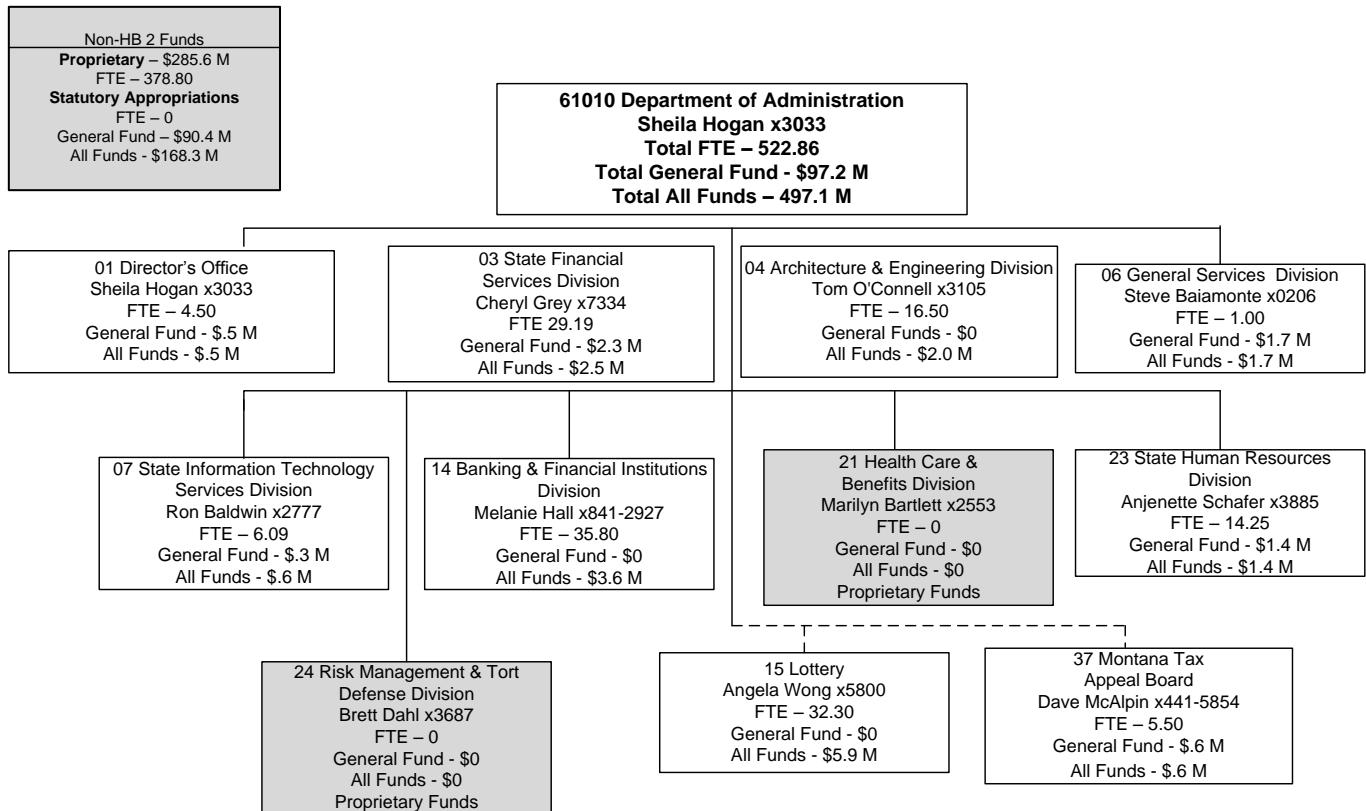
INTRODUCTION

The Department of Administration provides services to state agencies, local governments, and Montana citizens in the following areas:

- Human resource management, workforce development, labor relations, and policy development
- Information systems service hosting, telecommunications, 9-1-1 program management, tax revenue distribution to Public Safety Answering Points (PSAPS), data processing, public safety radio communications, and continuity planning
- Statewide Information Technology (IT) policies and standards development
- State financial institution oversight and regulation
- Insurance procurement/administration and risk management services
- Property/casualty claims administration and tort litigation services
- Accounting, financial reporting, warrant writing, and policy development
- State treasury services
- Federal Social Security Section 218 program administration
- State bonded indebtedness administration
- Capitol complex building and grounds maintenance and security
- Procurement, surplus property administration and policy development
- Printing, mail, and messenger services
- Technical assistance and training to local government accounting and financial personnel
- Audit review and enforcement for local governments
- Long-Range Building Program
- State employee group benefits
- Workers' compensation management

The Board of Examiners, Burial Preservation Board, Information Technology Board, State Banking Board, State Board of County Printing, State Compensation Insurance Board (Montana State Fund), State Tax Appeal Board, Office of the State Public Defender, Public Employee Retirement Board, Teachers' Retirement Board, and the Montana State Lottery are attached to the department for administrative purposes only.

On the following page is an organizational chart of the branch, including full-time employee (FTE) numbers and the HB 2 base general fund appropriations and the total of all funds. Unless otherwise noted, all phone extensions are preceded by (406) 444.



HOW SERVICES ARE PROVIDED

The department's budget consists of 9 major programs and two administratively attached agencies with the following functions:

Director's Office – provides the overall supervision and coordination of agency programs. The office provides legal, IT management, financial, budgeting, accounting, human resource management, and payroll services for the department and some of its attached agencies. The Offices of Labor Relations, representing the Governor's Office in all matters relating to collective bargaining, and Continuity and Emergency Management providing oversight and management in case of a catastrophic event are also part of the Director's Office

Governor-Elect – provides the Governor-elect and necessary staff with office space in the capitol complex, together with furnishings, supplies, equipment, and telephone service for the period between the general election and the inauguration. The program is funded only for one year every other biennium.

State Financial Service – provides the statewide functions of the state treasury, payment processing, and accounting and financial reporting policies. Treasury functions include the performance of the central banking function for state agencies, reconciliation of state bank accounts, and oversight of bank account collateralization. The division manages the financial portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS). It establishes state accounting policies and procedures, administers the federal Cash Management Improvement Act, prepares and negotiates the Statewide Cost Allocation Plan (SWCAP), and prepares the state Comprehensive Annual Financial Report (CAFR). The division also administers the warrant writer program, which provides check writing and automatic-deposit services for most agencies, along with the replacement, cancellation, and stale date processing for all agencies. The division provides technical assistance and training to local government accounting and financial personnel, and the audit review function for local governments. It administers the federal Social Security Section 218 program for the state and local governments. The division also administers the

purchasing function for state agencies.

Architecture and Engineering – manages remodeling and construction of state buildings. The division's functions include: planning new projects and remodeling projects; advertising, bidding and awarding construction contracts; administering contracts with architects and contractors; disbursing building construction payments; and providing design services for small projects. The program also formulates a long-range building plan for legislative consideration.

General Services – provides facilities and grounds maintenance and security for state property in the state capitol area. The division also manages printing and the photocopy pool, mail distribution, surplus property, central stores, statewide leasing, the statewide fueling network, and energy procurement.

State Information Technology Services – manages the central computing and telecommunications services for state government. The division provides central mainframe and mid-tier computers, data center, and hosting services; manages the statewide data network SummitNet; provides local and long-distance telephone network services; provides the statewide video network services; coordinates electronic government services; and manages the state's Internet presence at mt.gov. In addition, the division manages the Public Safety Services Office including the state's 911 and public safety communications programs; develops the statewide IT strategic plan and coordinates agency IT strategic plans; develops and oversees state IT standards and policies; and reviews and approves IT equipment and software acquisitions, including an IT project management office.

Banking and Financial Institutions – licenses, charters, supervises, regulates, and examines a variety of financial institutions operating in Montana. These institutions include: state-chartered banks and trust companies; savings and loans and credit unions; consumer loan and sales finance companies; title loan companies; escrow companies; deferred deposit loan companies; and mortgage brokers, mortgage loan originators, mortgage lenders, and mortgage loan originators.

Health Care and Benefits—administers employee benefit plans that include health, life, dental, prescription drugs, long-term disability, long-term care insurance, vision insurance, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. The Workers' Compensation Management Program provides a central resource for agencies in working to enhance safety, loss prevention, and return to work programs, and, works with the workers' compensation insurer to coordinate workers' compensation coverage and policy management issues.

State Human Resources – provides state agencies with a variety of human resource management programs. These programs include: human resource rules, policies, and standards for the Executive Branch agencies; training and other professional development services to state agencies; the human resource portion of the Statewide Budgeting, Accounting and Human Resource Systems (SABHRS); and human resource information services, supplying payroll and other human resource information systems for all branches of state government.

Risk Management and Tort Defense – administers a comprehensive plan of property and casualty insurance protection on behalf of state agencies and universities. The division insures state agencies/universities against risk of loss related to aircraft, airports, boilers and machinery, cyber information security, fidelity bond, fine art, Health Insurance Portability and Accountability Act (HIPAA), professional liability, property, surety bond, and vehicles. In addition, the division provides risk management training, on-site hazard inspections, consulting services, and claims administration. The division also investigates, evaluates, and resolves property/casualty claims, and coordinates the adjudication and settlement of tort claims involving personal injury/property damage.

Attached-to Agencies in the DOA budget:

Montana State Lottery – designs, markets, and administers lottery games operating in Montana. The

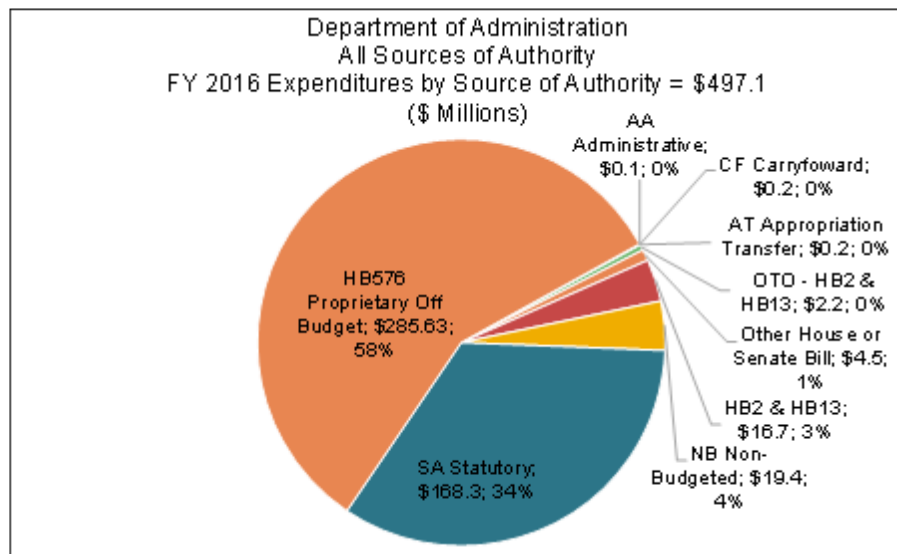
lottery presently offers a variety of instant/scratch and lotto-style games, some in cooperation with other lotteries through the Multi-State Lottery Association. The net revenue is deposited in the state general fund on a quarterly basis, after prizes, sales commissions, and operating expenses are taken out.

State Tax Appeal Board – provides a tax appeal system for all actions of the Department of Revenue. The Board hears appeals from decisions of the 56 county tax appeal boards and takes original jurisdiction in matters involving income taxes, corporate taxes, severance taxes, centrally assessed property and new industry property, motor fuel taxes, vehicle taxes, and cabin site leases.

SOURCES OF SPENDING AUTHORITY

The chart below shows the sources of appropriation authority. For a more detailed description of accounting terminology, please refer to the definition of terms. A significant portion of the divisions within the agency are supported by proprietary funds, including the operations of the Director's Office, State Financial Services Division, General Services Division, State Information Technology Division, Health Care and Benefits Division, State Human Resource Division, Risk Management and Tort Division and the Montana State Lottery. The funding is derived from fees charged for services provided to state government entities and local governments; revenue received from sales of items to the public, such as sales of lottery tickets and other games of chance by the Montana State Lottery; or from human service-related activities, such as group benefit premiums. Funding for common areas of the State Capitol, the Governor's Mansion, and the Montana Historical Society was provided from the general fund as one-time-only.

The majority of the funds are derived from proprietary rates including: 1) Benefits and claims for state employee health insurance, \$190.1 million; 2) State information technology services, \$45.9 million; 3) General services for rent, grounds maintenance, mail, and printing, \$20.8 million; 4) Insurance and tort claims \$9.9 million.



The above chart shows the sources of authority for the Department of Administration that were expended in FY 2016.

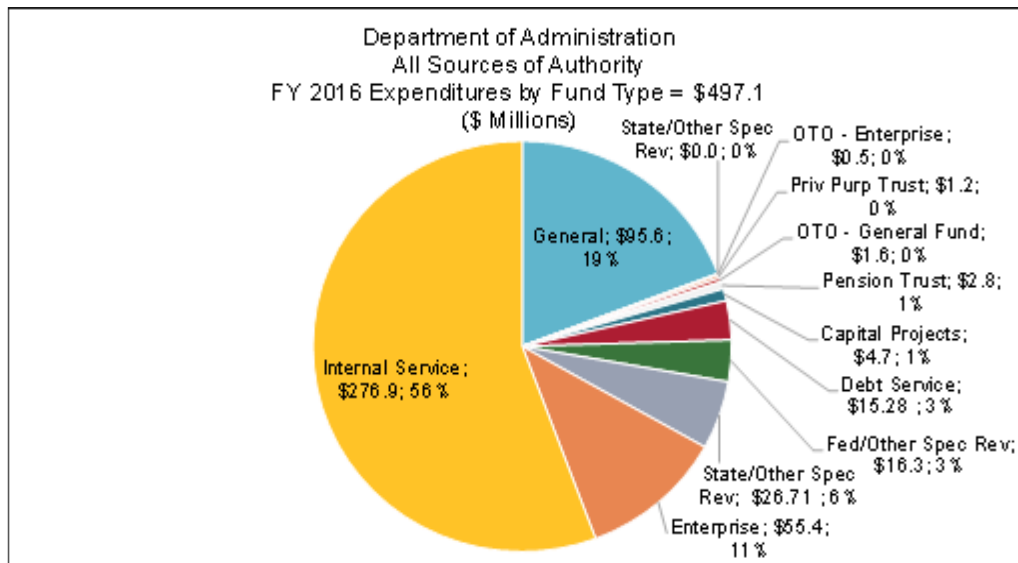
FUNDING

Of the total authority shown on the following page, 8.3% was spent on personal services costs to support 522.86 FTE and 24.9% provided for operating expenses, 37.5% supported benefits and claims with the majority for state employee health claims, and 9.0% for transfers to pensions and the Old Fund providing for injured workers' claims for accidents occurring prior to July 1, 1990.

Proprietary funding is derived from fees charged for services provided to state government entities and local governments; revenue received from sales of items to the public, such as sales of lottery tickets and

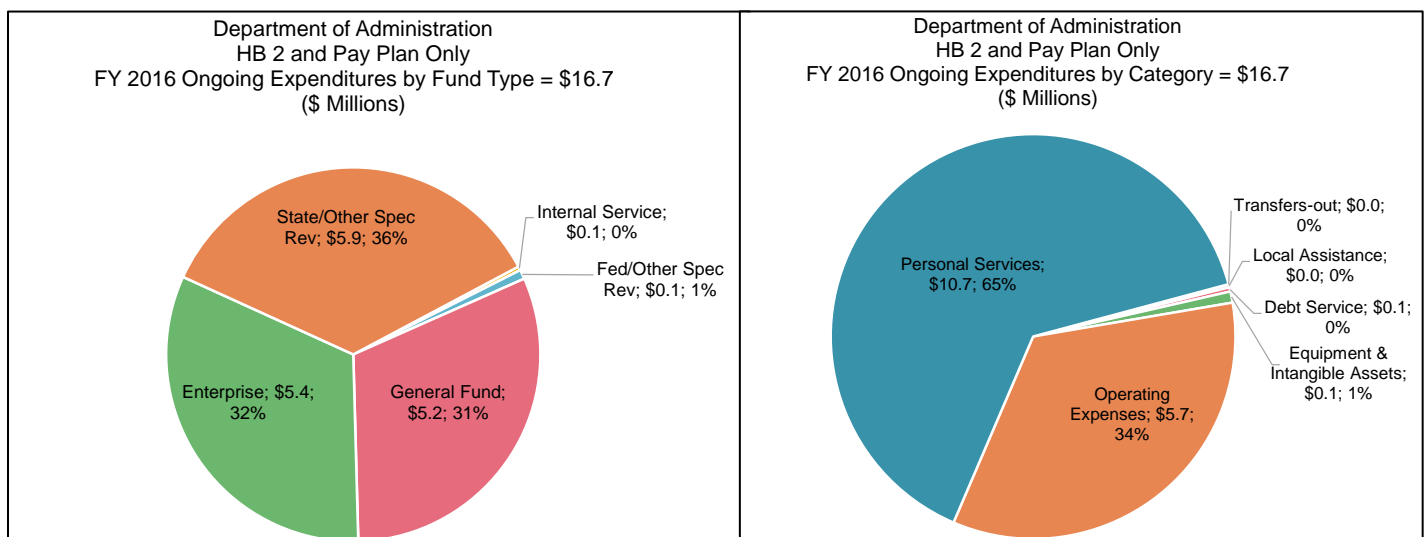
other games of chance by the Montana State Lottery; or from human service-related activities such as group benefit contributions.

Debt service funds provide for Long-Range Building Program bond payments, and capital project funds are used to support capital building projects and communications programs for interoperability radio projects. Nonexpendable trust funds are generated through a voluntary employee beneficiary association program, and private purpose trust funds are derived from private grants and funds.



EXPENDITURES

The following charts explain how the HB 2 authority is funded and spent.



The chart on the left shows the funding was spent in FY 2016. This chart matches the FY 2016 agency funding found in the 2019 Budget Analysis. Most proprietary funds are not appropriated and do not appear in this chart. However, lottery proprietary funds, because any unspent balance reverts to the general fund, are appropriated in HB 2. The chart on the right explains how the HB2 and pay plan authority is spent. Of the total authority 65% provides for personal services supporting 144.06 FTE and 34% is spent on operating costs. This chart matches the FY 2016 actual spending found in the agency comparison of FY 2016 actual expenditures to FY 2017 base budget in the 2019 Budget Analysis.

HOW THE 2017 LEGISLATURE CAN EFFECT CHANGE

In order to change expenditure levels and/or activity, the legislature might address:

- Risk management practices to reduce exposure to insurance claims against the state
- Tort defense practices and policies for insurance claims against the state of Montana
- The state group health insurance usage and costs
- Effectiveness of information technology management, development, and usage
- Changes to financial institution and banking regulation laws, changing workload
- Changes to state employee human resource laws impacting workload
- Changes to state procurement laws impacting workload

MAJOR COST DRIVERS

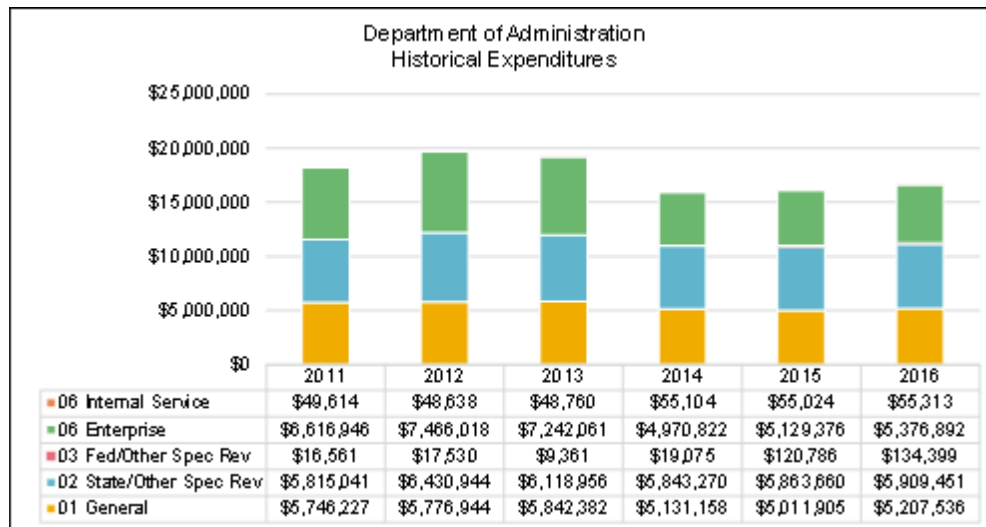
Activity for this agency varies depending upon:

- Level of services and complexity of computer systems required by state agencies
- Number of employees within state government
- Changes to the accounting requirements issued by the Governmental Accounting Standards Board
- Size and complexity of the state's finances
- Number and associated level of damage for state buildings, vehicles, and airplanes
- Size of damage awards for legal settlements in which the state is found responsible
- Activity level of the Montana State Lottery
- Size and number of medical and dental claims for employees that are self-insured through the State Employee Group Health Plan
- Number of charter banks within Montana and level and complexity of concerns discovered through bank examinations
- Number of state buildings, level of maintenance, construction, and repair required on the various properties

Division	Element	FY2016
State Financial Services Division	Total number of payments generated by states' computerized accounting system	2,512,748
	% of payments made using electronic means	70%
	Total audit and financial reviews analyzed	273
	# of contracts awarded	253
	Total dollar amount awarded by contracts	\$232.5 million
	Total contribution to general fund from Pro/Fuel Cards	\$1.3 million
Architecture and Engineering (A&E)	Number of active projects	179
	Total capital projects budget	\$417,628,032
General Services	Number of active building leases	382 leases
	Number of buildings managed by GSD	41 buildings and 6 garages
State Information and Technology Services	Number of SummitNet video sites across the state	245
	Total % of SMDS capacity filled	Helena Max Cabinets: 170 Space Used: 62.9% Miles City Max Cabinets: 95 Space Used: 46.3%
	Data Protection Services	1,247,191,855 unauthorized attempts per month
Banking and Financial Institutions	Number of financial and lending entities supervised	4,077
	Total assets of state chartered banks and state credit unions	\$31.2 billion
Montana State Lottery	Lottery transfers to the general fund	FY15: \$11.7 million FY16 (unaudited): \$12.9 million
State Human Resources	Number of paychecks processed	362,073
	Average number of state employees	13,902
	Number of participants in training	1,869 (does not include contract classes, which has increased over the past years)
Health Care and Benefits (HCBF)	Number of employees, retirees, and their dependents covered by the State Employee Group Health Plan	30,370
	Number of workers' compensation claims filed during the year	702
Risk Management and Tort Defense	Total insured values of state/university buildings and contents	\$5.1 billion

FUNDING/EXPENDITURE HISTORY, AUTHORITY USED TO ESTABLISH THE BUDGET BASE

The following table shows historical changes in the agency's base budget authority.



State special revenue spending fluctuates mainly due to 9-1-1 wireless provider fund balance distributions to wireless providers as required by statute. The major reasons for expenditure growth between 2011 and 2012 are:

- Enhanced supervision of residential mortgage services to protect Montanans from mortgage fraud. In addition, there was a significant increase in the dollar amount of banking and credit union assets supervised in the State due to growth in the agricultural, energy and commercial real estate sectors. This resulted in more complex examinations.
- Montana State Lottery – expenditure growth is due to growth in sales revenue. Since 2011, the Montana Lottery has increased revenue by \$8,765,559 and increased the transfer to the state general fund by \$2,946,489. This is a 19.99% growth in revenue between 2009 and 2012. Retailer commissions, prize expenses and vendor fees are all in direct relation to this increase in revenue.

Between FY 2013 and FY 2014 the legislature provided a statutory appropriation for lottery vendor fees. This reduced proprietary funding in HB 2 by \$2.98 million annually. As shown above between FY 2014 and FY 2016 expenditures have been almost flat. The increase in general fund in FY 2016 is mainly due to additional funding for personal services transferred from the Governor's Office.

MAJOR LEGISLATIVE CHANGES IN THE LAST TEN YEARS

It should be noted that legislative changes listed below do not include the long-range planning bills which are generally approved by the legislature each session and contains both approved building projects and information system projects.

Computer Systems

The 2009 Legislature, in the long-range planning section of HB 645, provided \$4.5 million in general fund for two information technology projects: 1) \$3.5 million for enterprise system center equipment; and 2) \$1.0 million for interoperability Montana. (HB 645 implemented the federal American Reinvestment and Recovery Act)

Banking and Financial Regulation

The 2011 Legislature required the licensure and regulation of residential mortgage loan servicers. (HB 90)

The 2009 Legislature revised mortgage lending laws by expanding the mortgage broker and loan originator act to include mortgage lenders. (SB 351)

The 2007 Legislature (regular session) created a structure for licensing, supervising, and regulating of business and industry development corporations and assigned the regulatory oversight to the department. (SB 321)

Pension funds

The 2013 Legislature increased employer and employee contribution rates for certain public employee retirements plans and provided for additional transfers from the general fund to improve the solvency of the trusts. (HB 377 and HB 454)

The 2007 Legislature (regular session) increased the employer contribution rates for certain public employee retirement plans. (HB 131)

Buildings maintenance and grounds

The 2009 Legislature provides guidance on the selection of a location for establishment of a veteran's home in southwestern Montana. (HB 213)

The 2005 Legislature transferred responsibility for capitol complex grounds maintenance from the Department of Fish, Wildlife, and Parks to the Department of Administration. In addition to transferring the responsibility for the function, the bill transferred associated assets and staff. (HB 109)

Purchasing

The 2007 Legislature (of the regular session) created a new special revenue fund from volume spending rebates on certain procurement contracts and authorized the account to be used to administer the state procurement card programs. (SB 4)

Emergency telephone services (911)

The 2009 Legislature reduced and redirects the portion of 9-1-1 fees collected by the state and used to fund costs to administer the fees for basic, enhanced, and wireless enhanced 9-1-1 services. (HB 82)

The 2007 Legislature (regular session) increased the 9-1-1 fee from \$0.50 per subscriber to \$1.00 per subscriber for use to establish the enhanced 9-1-1 emergency capacity for wireless telephone services. (HB 27)

State Employee Group Health

The 2011 Legislature raised the age from 25 to 26 that dependents may remain covered under their parents state employee group health insurance. The change was made to comply with the federal Patient Protection and Affordable Care Act of 2010. (HB 53)

The 2007 Legislature (of the regular session) created a new special revenue fund from volume spending rebates on certain procurement contracts and authorized the account to be used to administer the state procurement card programs. (SB 4)

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For more information, please visit the agency website, here: <https://doa.mt.gov/>.